# RATING REPORT

# Growth Securities (Private) Limited

**REPORT DATE:**
June 13, 2023

**RATING ANALYSTS:**
Syeda Batool Zehra Zaidi
Batool.zaidi@vis.com.pk

Jahanzaib Alvi
Jahanzaib.alvi@vis.com.pk

| RATING DETAILS | | | | |
|---|---|---|---|---|
| | Latest Rating | | Previous Rating | |
| Rating Category | Long-term | Short-term | Long-term | Short-term |
| Entity | A- | A-2 | A- | A-2 |
| Rating Outlook | Negative | | Stable | |
| Rating Date | 13/6/2023 | | 10/5/2022 | |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in 2005** | **External auditors:** Baker Tilly Mehmood Idrees Qamar Chartered Accountants |
| **Private Limited Company** | |
| **Key Shareholders (with stake 5% or more):** | **Chief Executive Officer:** Muhammad Shahid |
| Muhammad Shahid (51%) | |
| Muhammad Iqbal (49%) | |

## APPLICABLE METHODOLOGY(IES)

**VIS Entity Rating Criteria Methodology – Securities Firms Rating (July 2020)**
https://docs.vis.com.pk/docs/SecuritiesFirm202007.pdf

**VIS Rating scale (2023)**
https://docs.vis.com.pk/docs/VISRatingScales.pdf

# Growth Securities (Private) Limited

| OVERVIEW OF THE INSTITUTION | RATING RATIONALE |
|---|---|

Growth Securities (Private) Limited was incorporated in 2005 as a private limited company. Registered office is located at PSX, Karachi, Pakistan.

Profile of Chief Executive Officer: GSPL is led by Mr. Muhammad Shahid who has been actively involved in the Capital Markets since 1995, having held various positions in Capital Market Operations at Fortune Securities (Pvt.) Limited, and subsequently as Head of Equity Sales of M/s. Ismail Shakoor till July 2005.

Growth Securities (Private) Limited (GSPL) is engaged in ready-future arbitrage trading and provision of equity brokerage services to domestic clients. Key shareholders in the company include Mr. Muhammad Shahid (51%) and Mr. Muhammad Iqbal (49%).

**Table 1: Industry Trading Metrics (Volume & Value) – Ready**

| | FY18 | FY19 | FY20 | FY21 | FY22 | 10M'FY22 | 10M'FY23 |
|---|---|---|---|---|---|---|---|
| **Volume (In Billions)** | 43 | 37 | 49 | 131 | 73 | 63 | 40 |
| **Value (In PKR' Billions)** | 2,027 | 1,549 | 1,789 | 4,781 | 2,405 | 2,137 | 1,305 |

- During FY22, the brokerage and securities sector faced significant challenges due to the poor overall economic situation, a global decline in commodity prices, and political uncertainty. Investor confidence was greatly affected, and this was evident in the performance of the KSE-100 index, which showed lower growth compared to the previous year. The negative sentiment directly impacted the income growth of brokers.

- Trading volumes depicted significant decline on timeline basis, during FY22, trading volumes declined by 44% registering a further decline of 45% where volumes closed at Rs. 40b end 10MFY23.

- Accordingly, in tandem with trading volumes, brokerage revenues declined across the industry. This has dented the profitability of brokerage companies, some of which have slipped into losses. Additionally, low volume of IPOs resulting in reduced underwriting activity during FY22 also contributed to loss of revenue, during the year only three IPOs occurred raising a total of Rs. 1.3b which is considered low as compared to FY21 where the eight IPOs were witnessed raising over Rs. 20.0b.

- Recently PSX has launched a new technologically advanced trading platform, called Designated Time Schedule (DTS), replaced by the old trading platform (KATS/Karachi Automated Trading System) due to hardware and software mismatch. The new system is expected to improve security features to better safeguard investors' data and resolve complaints about data leakages and theft. Additionally, to further facilitate brokerage houses and traders, PSX has planned to launce 15 new Trading Right Entitlement Certificates (TREC) licenses which is expected to bring ease for brokers fulfilling minimum financial requirements and to offer trade execution services to retail, institutional and foreign clients along with becoming underwriters for right shares issue and act as agents for share buybacks.

**Key rating drivers:**

**Recent increase of domestic institutional clients likely to diversify revenue stream.**

- Equity brokerage department has three key areas 1) Domestic Institutions 2) Retail Sales and High Net Worth Individuals (HNWIs) and 3) Foreign Clientele. Total number of clients stood around 248 end-December 2023. However, only one-fifth of the clientele has remained active on timeline basis. Total number of foreign clients remained stagnant, while around 10 new institutional clients were added during HFY23. Increase in the number of domestic institutional clients is primarily on account of Company's change in business strategy to reduce dependence on brokerage segment and generate more business from the mutual fund and government borrowing market.

**Table 2: Client Breakup:**

| Number of Clients | FY20 | FY21 | FY22 | 9MFY23 |
|---|---|---|---|---|
| **Domestic Institutional** | 30 | 39 | 63 | 73 |
| **Domestic Individual** | 196 | 237 | 163 | 164 |
| **Foreign** | 10 | 10 | 11 | 11 |
| **Total Clients** | 236 | 286 | 237 | 248 |

**Notable change in revenue mix wherein brokerage commission came out as a major portion of total revenue.**

**Table 3: Revenue Mix (In %'s)**

| | FY20 | FY21 | FY22 | HFY23 |
|---|---|---|---|---|
| **Total Recurring Revenue (Mn.)** | **142.9** | **272.9** | **87.6** | **17.3** |
| Brokerage Commission | 7% | 11% | 25% | 76% |
| Underwriting Commission | 0% | 0% | 57% | 0% |
| Ready Future Arbitrage | 86% | 77% | -40% | -20% |
| Dividend Income | 4% | 3% | 5% | 6% |
| Other Income | 3% | 10% | 13% | 18% |

- In tandem with tough market conditions, inflationary pressures and higher interest rates, GSPL reported a decline in overall revenues. The business model of GSPL parallels fixed income instrument trading pattern and is devoid of market based risk.
- Historically, the Company's main source of revenue emanated from ready and future arbitrage, however, during the year, quantum of revenue emanating from the Company's underwriting business witnessed uptick contributing around 57% in total recurring revenues.
- End-HFY23, the Company's earning profile witnessed deterioration on account of slowdown in market activity and significant decline in core income. Given limited volumes in the equity market, business turnover is likely to be impacted. Hence, profitability of the Company is expected remain under pressure in the medium term.
- The Company's efficiency ratio also increased significantly. Recurring expenses in relation to recurring revenues were reported to be 162% end-HFY23 (FY22 79%, FY21 38%)

**Rating incorporates GSPL's financial risk indicators.**

**Capitalization indicators continue to remain manageable:**

- Equity base of the Company witnessed erosion to Rs. 511.1m end-HFY23 (FY22 576m)
- End-HFY23, the Company's total debt amounted to Rs. 190.8m (FY22 159.1, FY21 230m), albeit GSPL's capitalization indicators continue to remain manageable during the period under review.
- Given contraction in reserves and the acquisition of short term loans, gearing indicator stood at 0.37x end-HFY23 (FY22: 0.3, FY21: 0.2) while leverage indicator was 0.4x (FY21 0.3x, FY21 0.3x)

Liquidity Risk:

- GSPL's liquidity profile is considered sound as total liquid assets provided 3.18x times coverage to total liabilities during FY22, however the same slightly deteriorated on account of Company's low participation in proprietary trading resulting in decline in short-term investment end HFY23. End-HFY23, liquid assets provided 1.56x times coverage to liabilities.

Credit Risk:

- GSPL's credit risk emanates primarily from its debt profile, trade debts depict increase on timeline basis. End-HFY23 receivables from customers stood at Rs. 119.9m as at HFY23 (FY22: Rs. 37.7m) out of which Rs. 30m are receivables against margin finance. The Company's ageing profile is considered manageable as 93% of receivables are recovered within one month.

Market Risk:

The Company maintains a sizeable proprietary book amounting to Rs. 496m during FY22 (FY21 4448m) possessing high exposure to market risk as quantum of short term investments in relation to equity amounts to 86% end-FY22. As per management, these short term investments do not possess any market risk on the books of the company, as price risk of the same has already been eliminated given investments are committed to be delivered at a pre-agreed price, as specified in the future contract, and align with the ready future arbitrage mechanism.

**Corporate governance infrastructure is reflective of Company's operational status as Private Limited Company:**

- The assigned rating incorporates GSPL's operational status as a Private Limited Company.
- Since the last rating review, there has been no change in senior management team.
- GSPL has qualified senior management team in place with vast experience in the brokerage industry. Governance framework is adequate with room of further improvement in Board size. Inclusion of independent directors and certified members on the board may be considered to strengthen governance framework.
- GSPL's organizational framework comprises on 4 business functions, 1 operational function and 2 support functions, however inclusion of research function may have significant contribution in organization.

## Growth Securities (Private) Limited Appendix I

| FINANCIAL SUMMARY (amounts in PKR millions) | | | Appendix I | |
|---|---|---|---|---|
| BALANCE SHEET | FY20 | FY21 | FY22 | HFY23 |
| Property, Plant & Equipment | 28.1 | 37.6 | 79.6 | 80.7 |
| Trade Debts | 28.2 | 52.3 | 37.7 | 119.9 |
| ST Investments | 350.1 | 402.9 | 496.4 | 280.2 |
| Cash and Bank balances | 11.6 | 33.3 | 84.7 | 14.5 |
| Total Assets | 603.1 | 727.3 | 757.9 | 716.2 |
| Trade and Other Payables | 10.0 | 37.4 | 23.2 | 14.3 |
| Sponsors' Long Term Loans | 92.8 | 92.8 | 0.0 | 0.0 |
| Short Term Borrowings | 112.7 | 137.0 | 159.1 | 190.8 |
| Paid Up Capital | 100.0 | 100.0 | 100.0 | 100.0 |
| Total Equity | 387.6 | 460.1 | 575.6 | 511.1 |
| INCOME STATEMENT | | | | |
| Total Recurring Revenue | 142.9 | 272.9 | 87.6 | 17.3 |
| Administrative Expenses | 42.5 | 55.0 | 69.4 | 27.9 |
| Finance Cost | 2.2 | 2.2 | 1.3 | 1.9 |
| Profit Before Tax | 98.3 | 215.7 | (18.6) | (16.0) |
| Profit After Tax | 96.7 | 210.4 | (24.4) | (17.4) |
| RATIO ANALYSIS | | | | |
| Liquid Assets to Total Liabilities (%) | 200.6% | 167.3% | 318.9% | 156.5% |
| Liquid Assets to Total Assets (%) | 71.7% | 61.5% | 76.7% | 44.8% |
| Leverage (x) | 0.45 | 0.48 | 0.32 | 0.40 |
| Gearing (x) | 0.43 | 0.42 | 0.30 | 0.37 |
| Current Ratio (x) | 4.65 | 3.93 | 3.7 | 3.1 |
| Adjusted Efficiency (%) | 184.5% | 115.5% | 79.2% | 161.5% |
| ROAA (%) | 17.9% | 31.6% | -3.3% | -4.7% |
| ROAE (%) | 21.8% | 40.7% | -4.7% | -7.0% |

# Growth Securities (Private) Limited Appendix II

## REGULATORY DISCLOSURES Appendix II

| | |
|---|---|
| **Name of Rated Entity** | Growth Securities (Private) Limited |
| **Sector** | Brokerage |
| **Type of Relationship** | Solicited |
| **Purpose of Rating** | Entity Rating |
| **Rating History** | see table below |
| **Instrument Structure** | N/A |
| **Statement by the Rating Team** | VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. |
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| **Due diligence meetings with** | see table below |

**Rating History**

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| **RATING TYPE: ENTITY** | | | | |
| 13/06/2023 | A- | A-2 | Negative | Maintained |
| 10/05/2022 | A- | A-2 | Stable | Reaffirmed |
| 21/05/2021 | A- | A-2 | Stable | Reaffirmed |
| 19/5/2020 | A- | A-2 | Stable | Initial |

**Due diligence meetings with**

| Name | Designation | Date |
|---|---|---|
| **Mr. Zeeshan** | Director | May 11' 2023 |
| **Mr. Kamran** | Compliance Officer | May 11' 2023 |